2013 EDITION

First Home Buyers Guide

Part of *The Smart Borrower* Series

Contents

Introduction

For many first time home buyers, the housing market and dealing with agents can be confusing, especially when it comes to understanding fees and charges, and wading your way through the contract before signing it. However, this does not need to be the case. This guide allows you to make sense of the housing market by walking you through the do's and don'ts of home buying.

This guide explains how to get your finances right, before you buy. It also helps you to understand just what home loans are, the different types available and what fees and costs are associated with these loans. You'll also find out how to work out how much you can borrow and just how you can avoid making the common mistakes that first home buyers typically make. Plus, you'll learn more about eChoice, Australia's leading mortgage broker, and the services it has to offer first home buyers. In addition, this guide will take the guess work out of defining what you need in a home and organising yourself for home inspections with our specially designed work sheets 'Home Requirements' and the 'Open Inspection Schedule'.

Overall, this guide makes the process of buying your first home a little more simplified. In fact, by the time you have finished reading this guide you'll have a clearer vision of what you want in a home loan and just how you are going to achieve your goal of home ownership.

So let's get started!

Getting your finances right

Buying a home is a big financial commitment, one that typically spans over 20 to 30 years of your life. In fact, a home is probably the biggest asset that you'll seek to acquire in your lifetime. Therefore, it makes sense to get your finances in order before you seek to buy. This then makes keeping up with repayments easier, gives you a better chance of securing a loan and helps you to buy the home you want.

Organising your finances

Before buying a home, you need to look at your financial situation. If you have several small personal loans then you either need to pay these out or consolidate them into the one loan, so that these are easier to manage. If you have several credit cards with more than a $1,000 limit, then you will need to reduce these to just one card, and decrease the limit to just $1,000. Why? Well the more debt you have or the more access to debt, the lower the amount you can borrow and your chances of loan approval are reduced. Lastly, you need to establish a savings plan for a deposit, if you don't already have one. Why? Well your lender wants to see a consistent saving history. This reassures them that you can manage home loan repayments and that you are a good risk.

Tips for saving for a deposit

- If you have more than one credit card , then it's time to give all but one the flick.
- Reduce your credit limit to $1,000
- . • Pay off all other debts or consolidate loans.
    - Create an automatic debit for your savings account from your wages.
- Get a fee free, high interest rate savings account.
- Buy only the necessities and reduce your spending so you can save more.
- Create a weekly budget for yourself and stick to it. eChoice's budget planner calculator available on eChoice.com.au will help with this.
- Work on saving at least 20% for your home loan deposit. This way you avoid costly Lender's Mortgage Insurance (LMI). To calculate how much you can borrow, work out how much you can afford to repay on a home loan in a month, then use the borrowing power calculator.

How the government can help you

The first home owner's grant (FHOG) is offered under Australian State Governments. This grant is an incentive that makes buying a home more affordable. FHOG values vary from state to state and are also dependant on the type of home that you are buying. Current FHOG offerings are as follows:

State	FHOG Details
Australian Capital Territory (ACT)	Up to $12,500 for newly constructed homes (home and land value capped at $750,000 or less).
New South Wales (NSW)	Up to $15,000 (new homes) (home and land value capped at $650,000 or less).
Northern Territory (NT)	Up to $25,000 (new homes) or up to 12,000 (established homes) (home and land value capped at $600,000 or less).
Queensland (QLD)	Up to $15,000 (new homes) (home and land value capped at $750,000 or less).
South Australia (SA)	Up to $15,000 (new homes) or up to $5,000 (established homes).
Tasmania (TAS)	Up to $7,000 (no cap). First Home Builder Boost (FHBB) of up to an additional $8,000. This is on top of the $7,000 FHOG.
Victoria (VIC)	Up to $10,000 (new homes) (home and land value capped at $750,000 or less).
Western Australia (WA)	Up to $7,000 (home and land value capped at $750,000 or less).

Source: http://www.firsthome.gov.au current as of May 2013.

The Australian Government also offer first home buyers a special savings account. This is called the **First Home Saver Account** (FHSA) and it is a new initiative that assists first home buyers to save a deposit. This is a 4 year savings plan where the government contributes $850 into the savings account annually, providing that the account owner has deposited $5,000 during that year. However, there are a few drawbacks. Firstly, the interest earned by the account is taxed at 15% and secondly, the account is limited to $75,000.

To qualify for an account you must:

- Be over 18 years of age and under 65 years of age;
- Have not previously purchased or built a home to live in;
- Have not previously had/or currently have a FHSA; and
- Have a tax file number.

Account conditions of use:

- Minimum contribution of $1,000 per year, over 4 years.
- The funds are not taxed if the money is used to buy or build a first home to live in.
- All monies can be rolled over into a superannuation fund.

Home loan financing solutions

Once you have established a savings plan and budget, and you have been saving for some time, then you will have a clearer picture of how much you can comfortably afford to spend on mortgage repayments per month.

The next step is to then establish just how much you can borrow. This should be an amount that is affordable for you to repay. You also need to take into account that your interest rate, if variable, will change. This means if rates rise you will pay more for your home loan, per month, and if the interest rate goes down, you'll pay less. When buying a home you therefore want to have a little residual income left over for these fluctuations in repayments. Plus, you'll need to leave yourself with some money to cover unforseen home expenses, such as a new hot water service and other maintenance and repairs that could be required.

The most important consideration to remember when looking at home loan options, such as the number of years you have the loan for, the interest rate you pay and how often you repay the loan, is that these aspects all dictate the total amount of interest that you will repay over the term of the loan. For instance, if you borrow $300,000 at 6.25% over 30 years you will repay $1,847.15 per month on a variable rate interest and principal loan, then the total interest that you will pay will be $364,974.58. However, if you cut 10 years from the repayment time on the same loan and borrow $300,000 at 6.25% over 20 years, the total interest that you pay drops to $226,268.31.

It is also important to remember that most home loan lenders will allow you to repay more off your home loan than you are obligated to. But, always clarify that this is possible before taking out the loan. If you are able to make additional repayments then this will reduce the term of your loan and the total amount of interest you repay. Therefore, you can commit to longer loan terms, say 30 years, knowing that you have reduced your financial obligation. You will also have more residual cash and greater control over your finances. However, you can elect to reduce your loan term and the total amount of interest that you pay by paying more off your loan when you can.

Finding the right loan for you

Before you go in search of a home, it can pay to get loan pre-approval. This then makes it easier for you to find a home that is within your budget. Plus, it can save you headaches and heartache, especially if you find a house you love, but then cannot get the finance approved.

To get pre-approval for a loan, you firstly need to consider what loans are available and what options these give you. Most lenders will be able to offer you several different loan types, these will have various options and varying interest rates.

Types of loans

The most common loans you'll encounter when going in search of a home loan are the following:

Variable home loan: This loan has an interest rate that changes depending on the current cash rate offered by the Reserve Bank. This means that the interest rate will go up and down depending on the Reserve Bank cash rate and/or the lender passing on the rate movement. There are two types of variable home loans available. The first is the **basic variable** home loan, which has a changing interest rate, but does not include any additional features, such as a redraw facility etc. A redraw facility allows you to redraw any additional payments you have made on your loan when you need them. The second type is a **standard variable** home loan, which also has a changing interest rate, but it does include additional features. Often a basic variable home loan will cost you less than a standard, because it has less features. So you need to work out whether or not you prefer the features and will use them, or if you prefer to pay less.

Fixed rate home loan: The interest rate for this loan is fixed over a specific term and does not change over this time. When you take out this type of home loan you will agree to a fixed term. This will be from 12 months to 5 years.

Introductory home loan: This is a fixed rate loan for new borrowers that is also known as a honeymoon loan. The fixed term for this loan is usually 12 months. When the fixed term expires, the loan will revert to a standard variable rate home loan.

Interest only home loan: This loan allows you to pay only the interest over the term of the loan, which is typically 5 years. You will then begin to pay off the principal when the loan term ends.

Principal and interest home loan: This is a common home loan, where the borrower will pay the interest incurred monthly and a portion of the principal. The amount of interest that is paid at the start of the loan is greater than the principal. However, as you near the end of your loan term you will pay more off the principal.

Construction only home loan: A loan for the building of a new home. This type of loan allows the borrower to draw payments during construction to pay for building costs.

Lo doc home loan: This loan requires less documentation to secure and is typically offered to self-employed borrowers, who may have to rely on business financial statements as proof of income.

Line of credit loan: An agreed sum is deposited into an account by the lender, which then gives the borrower access to funds as they need these.

Pros and cons of home loans

All home loans come with benefits and disadvantages. Therefore, before taking out any loan it is advisable that you compare what each type of loan has to offer, and just what its drawbacks are, so that you can make an informed decision as to which loan is right for you. The most common loans you will encounter have been compared below. You may also wish to compare other home loans to decide which is the most suitable for you and your circumstances.

Fixed and Introductory Loan

Pros

- Budget and plan ahead with confidence over the life of your fixed loan period.
- Repayments don't change during the fixed rate term.
- Affordable when rates rise.

Cons

- Loan exit fees can be high if you exit the loan before the end of its term.
- Some fixed loans don't allow you to make extra repayments without incurring a fee.
- Most fixed loans don’t have redraw available.
- If the fixed period expires when interest rates are high, repayments may be harder to meet.

Variable Loans

Pros

- Rarely have exit fees.
- You can make additional repayments.
- You may have redraw options.
- Rates can fall and you can save money.
- You can make weekly, fortnightly or monthly repayments.

Cons

- Rates can rise and you'll pay more.
- Can have less features than other loans.
- It can be difficult to budget as your repayment amounts can rise and fall, depending on the Reserve Bank cash rate and/or the lender passing on the rate movement.

Interest Only Loans

Pros

- You have more money available and can save or have cash on hand for emergencies.
- You can make extra repayments, which then comes off the principal of the loan and reduces your interest payments.

Cons

- Terms are typically up to 5 years.
- At the end of the term, the loan reverts to a principal and interest loan and your repayments will increase. This can make it harder to make repayments.
- If you do not make extra repayments then you are not paying anything off the principal of the loan. Therefore, interest remains high and is not reduced over the loan term.

Principal and Interest Loans

Pros

- You pay off the principal and interest of the loan.
- You can pay more off the loan without incurring any additional fees.
- You reduce the amount of interest you pay by reducing the principal of the loan.

Cons

- You are obligated to pay more per month than on an interest only loan.
- Your cash flow is less, due to having to pay more per month. This, in turn, may make it difficult for you to find capital in emergency situations.

Loan fees, costs and charges

All home loans have associated fees, costs and charges. The most common ones you will encounter are as follows:

Loan application fees: A loan establishment fee that is charged by a lender. These vary from lender to lender and typically cost between $300 and $800.

Property valuation: The lender may charge you a fee to have the property independently valued. This is often carried out before loan approval and will be charged even if the loan is not approved. The fee is based on the property's value and is usually charged at 0.1%. Therefore, a $300,000 property valuation will incur a $300 fee.

Property and title search: This is a government fee that is charged by your lender for the conduct of a property search. Fees vary depending on the state that the title is held in and on the type of property. Typically fees range from $25 to $250.

Stamp duty: This is a government tax charge, which is incurred at the time of sale. This fee varies from state-to-state and is calculated as a percentage of the purchase price of a home. Therefore, the greater the home's value, the greater the stamp duty. However, not all states charge this tax. Please refer to the table below for an example.

State	Property Cost	Stamp Duty Payable
Australian Capital Territory (ACT)	$300,000	$8,550.00
New South Wales (NSW)	$300,000	$8,990.00
Northern Territory (NT)	$300,000	$10,414.30
Queensland (QLD)	$300,000	$NIL
South Australia (SA)	$300,000	$11,330.00
Tasmania (TAS)	$300,000	$9,935.00
Victoria (VIC)	$300,000	$7,959.00
Western Australia (WA)	$300,000	$NIL

Source: infochoice - Stamp duty charges current as of May 2013.

Conveyancing fee: A legal service fee that is charged at the time of property settlement. A conveyancer is a property solicitor that makes sure all utility charges and other costs associated with home title transfer are accurate and correct at the time of sale. The fee charged for a conveyancer's service is typically more than $300 and less than $1000.

Lender's mortgage insurance: An insurance policy that covers the lender for loan repayment default. This insurance is mandatory if the lender lends more than 80% of the property price to a borrower. The fee charged is typically a percentage of the loaned amount. For example, if you want to borrow $255,000 to purchase a $300,000 property, mortgage lender's insurance will cost you between $1,500 to $2,200, depending on the lender you are borrowing the funds from.

Annual and ongoing fees: A bank fee that is charged over the duration of the loan. This varies from bank-to-bank and is usually between $5 to $20 per month.

Transfer fee: A government fee charged to transfer the title of a property into another person's name. Please refer to the table below for current rates.

State	Transfer Fee Payable
Australian Capital Territory (ACT)	$213.00
New South Wales (NSW)	$204.00
Northern Territory (NT)	$109.00
Queensland (QLD)	$497.70
South Australia (SA)	$2,020.00
Tasmania (TAS)	$188.64
Victoria (VIC)	$866.00
Western Australia (WA)	$210.00

Source: infochoice - Transfer fees current as of May 2013.

Mortgage registration fee: A government charge to register a mortgage in the new property owner's name. Current rates are displayed in the table below.

State	Stamp Duty Payable
Australian Capital Territory (ACT)	$110.00
New South Wales (NSW)	$102.00
Northern Territory (NT)	$109.00
Queensland (QLD)	$152.10
South Australia (SA)	$144.00
Tasmania (TAS)	$123.12
Victoria (VIC)	$105.00
Western Australia (WA)	$160.00

Source: infochoice - Mortgage registration fees current as of May 2013.

Advantages and disadvantages of using a broker

A mortgage broker represents lenders and their home loan products, and assists you to find the most suitable mortgage for your circumstances. In addition, a broker will also help you apply for a loan. For many people, this simplifies the home buying process and allows them to get expert advice before they make a decision.

The advantages

- A good broker can provide you with a wide selection of home loan products.
- Brokers typically represent a variety of lenders. This includes banks, credit unions and building societies.
- A broker can reduce your research time and help you find the most affordable loan.
- Most brokers don't charge you a fee for their service as they are paid by a lender when they sign you up for a loan.
- Brokers will generally assist with paperwork, including assisting with government grants and dealing with lenders.

The disadvantages

- Not all brokers are created equally. Some brokers are with a registered brokerage group, others are not. Some brokers will have qualifications and credentials, others will not. Therefore, you need to ask about a broker's qualifications, credentials and if they are with a registered body, before using their services.
- Not all brokers have the same amount of experience. Always check the number of years a broker has been practicing for, before using their services.
- Some brokers are biased. Brokers are paid a commission by lender when they secure a loan. Some lenders pay more than others, so this may influence a broker when they give you advice on which loan to choose. To avoid this, ask a broker about their commissions upfront and ask if they can include these when they give you recommendations.
- Some brokers don't have many lenders that they represent, so you need to clarify how many lenders they have on their list, before you deal with them.

Loan amount

The amount you borrow should be based on what you can afford to repay monthly. This repayment ought to be easy to manage and should allow you to cover any unexpected costs. Most lenders will base the amount you can borrow on your annual income and expenditure, and on the number of dependants that you have. You will also find that the number of credit cards, their limits, and other loans and debts may affect the amount you can borrow. This is because these are considered as liabilities that reduce your loan repayment efficiency. The amount you can borrow is called your borrowing power.

Your type of employment

When you apply for a loan, a lender will take your type of employment into consideration along with how long you've been employed for. A lender has strict lending guidelines and a borrower must meet these criteria before a lender can approve a loan. A long employment history in a secure or full time position is more favourable than a short employment history in a casual position. If you are self employed, then a lender will want to see your business statements for a number of years. Basically, a lender wants proof of income and wants to verify that you are a good risk.

The types of loans available

Loans for those who are self employed, who are casually employed, who are contractors or even investors are available. But, not all lenders will offer these types of loans. Therefore, before applying for a loan it is important to disclose your employment type. This way you can find a suitable loan for your circumstances. Plus, your lender will also be able to tell you what type of documents you will need to present so that you can successfully apply for your loan.

Repayments

Home loan repayments are typically made monthly. But some loans and lenders will offer you flexibility. If you are able to, you ccould pay your loan weekly or fortnightly, rather than monthly. Depending on your loan type, this will pay more off your principal over the term of your loan and it will reduce the term of your loan, as well as reduce the total amount of interest that you pay.

Common mistakes to avoid

New home buyers often make mistakes when they go in search of a home. This is mainly because they have little or no experience dealing with real estate agents, they think with their heart and not their heads, and they forget about future plans or financial obligations. The most common mistakes made are as follows:

Mistake 1: Going over your budget

When looking for a home you may be tempted to go over your recommended borrowing amount. After all, we all want something a little better or just out of our reach. But, when you're buying your first home sticking to your budget makes repayments affordable. You won't stretch your financial resources, and if interest rates change you won't feel as financially stressed.

Mistake 2: Buying with your heart, not your head

A home is an asset. If you buy right, then over time, your home value should increase. This means that when you are looking to buy you should leave your emotions at the door. Instead, think of buying a home as a business transaction. You want to buy at the lowest possible price so that your return on investment is higher over the years of ownership. Even if you think a house is ideal, give nothing away, otherwise a real estate agent will use this to their advantage when negotiating a price. If negotiation doesn't go as planned and the vendor (seller) doesn't accept your offer, then remember that there are plenty of other homes on the market and that there is an ideal house out there for you.

Mistake 3: Failing to do market research

Before you buy, always research the market. Look at locations. Compare home values and features. Consider infrastructure, such as schools, hospitals and transport. Look at what other homes have sold for in your chosen locations. Overall, get to know an area. The more you know, the more you will save in time and money. Plus, you'll find it easier to negotiate and find yourself a 'good' buy.

Mistake 4: Not finding the right mortgage

Compare mortgages before selecting a lender. Look at what banks and other lenders have to offer, compare packages. Look at loan features, fees and interest rates. Then use a broker to find you the best mortgage that matches you and your circumstances. This will save you a great deal of expense in the long run.

Mistake 5: Rushing to buy

Finding the right home takes time and patience. Don't be in a rush to buy. Poor decisions are costly. Instead, take your time, research the market and know what you're looking for. When you find a suitable home, make sure it is in a good location and that it is sound. Look for faults in the buildings structure, electrics and plumbing and for possible signs of white ants. Then have the home inspected before you buy, if you feel certain this could be the place for you.

Mistake 6: Not understanding the contract

Contracts can be complicated. They are full of legal terminology and many clauses. So they are difficult to read, and at times they don't make a great deal of sense. Therefore, if you are not sure of what you're signing, then don't sign the contract. Instead, ask questions and have the information clarified. If the real estate agent comes across as being pushy or doesn't want to explain the contract, then don't continue with the contract. If needed, seek independent advice. You also need to be aware of how to use clauses to your benefit. The most frequently used clauses are as follows:

- If you haven't arranged finance, then you'll need to add a clause that states, 'subject to finance'. This means that if you do not find finance within an allocated timeframe, then the contract will become null and void. This then allows you to avoid costly finance if a conventional lender won't approve your loan.
- If the home needs to be inspected, then you'll need to add a clause that states, 'subject to a building and pest inspection'. Inserting this clause means that if the home is unsound or has white ants (pests) then you can get out of the contract. Failing to have these inspections carried out can be costly.

It also pays to remember that contracts typically have a 3 to 7 day cooling off period. During this time, you can change your mind and discontinue with the purchase.

Mistake 7: Underestimating costs

The purchase price of a home is not the only cost that you need to consider when buying a home. There are many other costs associated with the purchase. These include stamp duty, council rates, water and sewer fees, valuation, title searches and transfers, as well as conveyancing fees. These costs add up quickly and, in many cases, can add thousands to the price of a home. Therefore, before you buy, work out what these additional costs will be and include these in the amount you can afford to borrow. Then you'll not be caught out.

Mistake 8: Failing to have the home inspected

Building and pest inspections are a must. Yes, they cost money, but the hundreds of dollars that you may spend will seem minimal when compared to the thousands in repair bills if you buy an unsound home.

How eChoice can help

As a financial service provider, eChoice helps Australians just like you to fulfil their dream of home ownership.

eChoice defined

eChoice offers home buyers a choice of home loan products and services. We have been processing loans for over 10 years and we've helped thousands of Australians find a suitable mortgage. eChoice is a part of the Firstfolio Group (ASX Code: FFF), who manage more than $20 billion in loans.

The eChoice service

Combining people with technology, eChoice produce home loan comparisons of more than 100 different home loan products, which are offered by 25 different lenders. We work with you to find the home loan that matches your needs.

eChoice lenders

With 25 different lenders on offer, eChoice are able to offer you a selection of loans. Our lenders are as follows:

- Adelaide Bank
- AMP
- Banana Cost Credit Union
- BankWest
- Citibank
- Collins Securities
- Commonwealth Bank
- Firstmac
- Global Capital Commercial and Residential
- Homeloans Limited
- Homeside
- ING Direct
- La Trobe Financial
- Macquarie
- Me Bank
- National Australia Bank
- New-Loan
- National Finance Club
- Paramount
- Pepper Home Loan
- Suncorp
- St George Bank
- Victorian Mortgage Group
- Wide Bay Building Society
- Xplore

eChoice rates

eChoice offers you some of the most competitive and lowest interest rates available in today's market. The eChoice panel selects and compares major lenders, non bank lenders and online lenders to find the most affordable product that matches your needs. Best of all, you pay nothing to use eChoice's service, the successful lender pays eChoice a predetermined fee for introducing you.

The eChoice process

When using eChoice, you'll talk to real people. Your consultant will arrange a dedicated mortgage broker, who will deal with you directly. Your broker will then help you to understand the home loan process and will walk you through this from start to finish. They'll even submit your paperwork for you and will be there if you have any questions that you need answered.

Customer testimonial

“I would like to take this opportunity to commend Chris on his helpfulness throughout the entire loan process. I have no doubt that Chris will be our first contact when looking for our next purchase. We have no hesitation in recommending Chris and eChoice to any first time borrowers, friends or family members. Although the entire loan process was quite daunting it was definitely made easier with the help Chris provided us. We were provided with first-rate service and we could not have asked for more. Thanks Chris much appreciated.”

– Andrew, Sunshine North VIC

Your wish list

Trying to work out the differences between what a home needs to have and what a home buyer would like the home to have are two of the most challenging issues a first home buyer will encounter. In fact, many first home buyers tend to confuse their needs with their wants. Unfortunately the more features a home has, the more expensive it becomes. So if you know what you need, what you like and what you can live without, then you can narrow down your search and possibly save yourself a lot of time, money and unnecessary heartache when house hunting. The following table will help you decide between your needs and wants. Simply print it out, put your thinking cap on, and then start jotting down your ideas. Once you know what you need you can start your search.

Home requirements

Home 'Must Haves' *3 bed, 1 bath, 2 car parking, 700m2 block*	**Home 'Likes'** *4 bed, 2 bath, lock-up garage, 1200m2 block*	**Home 'Live Withouts'** *Pool, gym, study, alfresco dining, spa bath*

Your open inspection schedule

This is a great tool to use when you are planning to visit homes that are open for inspection. To use this simple, but excellent organisation tool, simply print out this sheet, fill in the date, times and locations, as well as the home features of the homes you wish to inspect, and then, take it with you to the inspections, so you can take notes when you're inspecting the homes. This will then help you to keep track of the homes you've visited and it will also refresh your memory when you are trying to make decisions about the best home to buy for you.

Open inspections

Date/Time *10.04.13/**10am***	**Address** *4 Wilson Drive, Athelston*	**Home Features** *4 bed, 2 bath, 2 car garage, 800m2 block*	**Price** *$340,950*	**Sale Type** *Auction or Private Sale.*	**Agent** *Julie Bennet, First National.*	**Rating/ Notes** *4/10. Needs work. Carpet worn.*

Get Started With ________ Today!

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